

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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February 23, 2011

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 23, 2011 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

**Present:** Terry Buck, Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, Jerry Telles, Maria Theresa Viramontes and Russell Watts

**Staff:** Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel and Rick Koehler, Retirement Accounting Manager

|                                      |                      |
|--------------------------------------|----------------------|
| <b>Outside Professional Support:</b> | <b>Representing:</b> |
| Bob Helliesen                        | Milliman             |
| Tim Price                            | Milliman             |
| Harvey Leiderman                     | Reed Smith LLP       |

**Other Attendees:**

|                    |  |
|--------------------|--|
| Luz Casas          | Contra Costa County Employees' Retirement Association (CCCERA) Staff |
| Chih-Chi Chu       | CCCERA Staff   |
| Christina Dunn     | CCCERA Staff   |
| Justine Oyler      | CCCERA Staff   |
| Bill Pollacek      | Retired Treasurer-Tax Collector                                      |
| Jackie Lorrekovich | Contra Costa County Fire Protection                                  |
| John Phillips      | Self   |
| Randy Musgraves    | Central Contra Costa Sanitary District                               |

**1. Pledge of Allegiance**

Gioia led all in the *Pledge of Allegiance*.

**2. Public Comment**

No members of the public offered comment.

**3. Approval of Minutes**

It was **M/S/C** to approve the minutes of the February 9, 2011 meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts)

**4. Review of total portfolio performance - Bob Helliesen, Tim Price**

CCCERA's fourth quarter return of 6.1% was above the median total fund and the median public fund. Performance was strong over the past year. CCCERA slightly trailed the median funds over the past three and four-year periods. CCCERA has out-performed both medians over trailing time periods five years and longer.

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CCCERA total domestic equities returned 12.1% for the quarter, better than the 11.6% return of the Russell 3000® and the 11.4% return of the median manager. Of CCCERA's domestic equity managers, Emerald has the best absolute return at 17.5%, better than the 17.1% return of the Russell 2000® Growth Index. Progress returned 15.4%, below the 16.3% return of the Russell 2000® Index. Wentworth Hauser returned 14.8%, better than the S&P 500 of 10.8%. Rothschild returned 12.9%, lagging the Rothschild Small/Mid Value benchmark return of 13.9%. PIMCO returned 11.2%, above the S&P 500 return of 10.8%. Robeco Boston Partners returned 10.5%, matching the return of the Russell 1000® Value Index. Intech Enhanced Plus returned 10.2%, trailing the S&P 500 Index. Delaware returned 9.8%, trailing the Russell 1000® Growth Index return of 11.8%. Finally, Intech Large Cap Core returned 9.6%, below 10.8% return of the S&P 500 Index.

CCCERA international equities returned 6.1%, trailing the 6.7% return of the MSCI EAFE Index and the 7.3% return of the median international manager. The GMO Intrinsic Value portfolio returned 6.1%, better than the 5.3% return of the MSCI EAFE Value Index.

CCCERA total domestic fixed income returned 0.0% for the fourth quarter, better than the -1.0% return of the Barclays Universal Index and the -0.8% return of the median fixed income manager. The Torchlight (formerly ING Clarion) II fund returned 8.0%, better than the ML High Yield II Index return of 3.1% and the high yield fixed income median return of 3.4%. Allianz Global (formerly Nicholas Applegate) returned 3.8%, which was better than 3.1% return of the ML High Yield II Index and exceeded the 3.4% return of the median high yield manager. The workout portfolio returned 2.8%, better than the Barclays Aggregate return of -1.3%. The Torchlight Fund III returned 0.1% in the fourth quarter, trailing the Merrill Lynch High Yield II Index. PIMCO returned -0.8%, better than the Barclays U.S. Aggregate and matching the median. Lord Abbett also returned -0.8%, better than the Barclays U.S. Aggregate and nearly matching the median fixed income manager. Goldman Sachs returned -1.0%, better than the Barclays U.S. Aggregate Index but trailing the median fixed income manager. AFL-CIO returned -1.3% which matched the Barclays U.S. Aggregate but trailed the median fixed income manager.

Lazard Asset Management returned -0.6% in the fourth quarter, which was better than the Barclays Global Aggregate return of -1.3%, and ranked in the 38th percentile of global fixed income portfolios.

CCCERA total alternative investments returned 4.3% in the fourth quarter. Nogales returned 13.4%, Adams Street Partners returned 6.8%, Pathway returned 6.4%, Bay Area Equity Fund returned 4.8%, Energy Investor Fund II returned 2.8%, Carpenter Community Bancfund returned 1.2%, Paladin III returned 1.2%, Hancock PT Timber Fund returned 0.3%, Energy Investor Fund returned -0.4% and Energy Investor Fund III returned -2.2%. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending September 30, 2010.)

The median real estate manager returned 4.9% for the quarter while CCCERA's total real estate returned 4.4%. Invesco Fund II returned 18.8%, DLJ's RECP II returned 14.8%, Adelante Capital REIT returned 7.0%, DLJ's RECP IV returned 5.6%, Invesco International REIT returned 4.8%,

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Fidelity III returned 3.2%, Invesco Fund I returned 2.7%, Fidelity II returned 1.2%, DLJ RECP III returned -0.8%, DLJ RECP I returned -4.1%, BlackRock Realty returned -10.5%.

It was **M/S/C** to accept the Quarterly Report presented by Milliman. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts)

**a. Consideration of any managers already under review or to be placed under review.**

Helliesen reported on the performance of the managers on the watch list stating Progress and Rothschild continue to underperform.

It was **M/S/C** to terminate Rothschild, and transition the assets to be managed on an interim basis in a small capitalization value style, and authorize Milliman to issue an RFP for a small cap value fund manager. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts).

A motion was made to appoint an ad hoc committee to meet with Progress and let them know CCCERA's intention of terminating the fund. It was suggested the committee explain the reasons why and invite them to present to the board next month before the Board makes a decision. The motion was not seconded.

A motion was made to have staff conduct an on-site visit before next month's Board meeting and invite them to do a presentation at the next Board meeting. There was no second to the motion.

An amended motion was **M/S** to authorize staff and Board members to conduct an on-site visit with Progress and report back to the Board at the next board meeting.

A substitute motion was made to terminate Progress. After discussion the question was called.

It was **M/S/C** to call for the question. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts)

On the substitute motion, it was **M/S/C** to terminate Progress. (Yes: Gaynor, Gioia, Hast, Holcombe, Watts. No: Buck, Cabral, Telles. Abs: Viramontes)

It was **M/S** to move the money from Progress into a Russell 2000 index fund. A substitute motion was **M/S/C** to move 50% of the funds to Emerald and 50% of the funds to the interim small capitalization value account set up for the Rothschild transition. (Yes: Buck, Gioia, Hast, Holcombe, Telles, Watts. No: Cabral, Gaynor, Viramontes).

Helliesen reviewed the remaining managers on the watch list noting that GMO is meeting their expectations and recommended removing them from the watch list.

It was **M/S/C** to remove GMO from the watch list. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts).

b. Consideration of any changes in allocations to managers.

There were no changes in allocations to managers.

5. Review CCCERA's long term rolling returns compared to actuarial assumption rate.

Hally reviewed a graph of the 15 and 20 year annualized rolling returns for CCCERA's total fund. The returns are on a quarterly basis compared with an actuarial rate of 7.75%. He noted the graph provides historical information and is not used as a decision making tool.

The Board asked for a graph with the rolling 5-year period or return.

6. Consider and take possible action on amendments to CCCERA's Security Litigation Policy.

Levy summarized the recommend changes to the Securities Litigation Policy.

The Board discussed the need for stating a dollar amount threshold in order to become a lead plaintiff within the policy. Leiderman indicated that based on SEC guidelines, CCCERA is unlikely to have a large enough loss to become the lead plaintiff.

It was *M/S/C* to approve the amendments to CCCERA's Security Litigation Policy changing the word will to shall on item 3. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts)

It was the consensus of the board to move to Item 8.

8. Conference Seminar Attendance

(a) No action was taken on the LA Trustees Network Round Up 2011, February 28-March 1, 2011, Los Angeles, CA.

9. Miscellaneous

(a) Staff Report

Leedom reported the information needed on how the absence of terminal pay for new hires would affect employer contribution rates will be sent to the Segal Company.

Letters went out to retirees last week providing information on the taxable amount of payments based on the "heart presumption" statue.

Leedom received three responses to the RFP for building management.

Leedom noted there will be information in the newsletter and on the CCCERA website highlighting our positive returns for 2010.

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Leedom will ask The Segal Company to update the 5 year projection of employer rates based on the actual returns for 2010.

Hally reported that Carpenter has withdrawn the request to increase the size of the Carpenter Community Bancfund.

(b) Outside Professionals' Report - None

(c) Trustees' Comments

Cabral would like the association to issue a press release on our 2010 investment returns.

He inquired if the annual benefit statements could be sent to members earlier this year compared to past years.

**CLOSED SESSION**

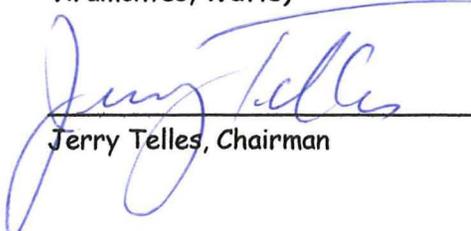
The Board moved into closed session pursuant to Govt. Code Section 54956.9(b)(1).

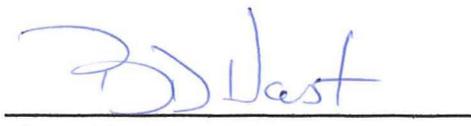
The Board moved into open session.

**7. Closed Session**

There was no reportable action.

It was *M/S/C* to adjourn the meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Telles, Viramontes, Watts)

  
Jerry Telles, Chairman

  
Brian Hast, Secretary